

AR52

Campbell
Resources Inc.

Annual Report
1980



The Company

Campbell Resources Inc. is active in the natural resource and energy field, with interests in:

- mining gold and copper in Chibougamau, Quebec
- oil and gas production and exploration in Western Canada, the United States and overseas
- coal mining in the United States
- exploration for base and precious metals in Canada and Mexico

A copy of the 1980 Annual Report on Form 10-K, filed with the United States Securities and Exchange Commission is available on request to the Secretary of the Company.

On peut se procurer l'édition française de ce rapport en s'adressant au secrétaire de la Compagnie.

Highlights

	1980	1979	% Increase
Financial			
Earnings per share	\$2.17	\$0.29	648%
Net Income	\$ 9,462,000	\$ 1,286,000	636%
Operating Cash Flow	\$ 10,653,000	\$ 3,605,000	196%
Mining Income	\$ 10,993,000	\$ 3,116,000	253%
Oil and Gas Income	\$ 1,089,000	\$ 834,000	31%
Metal Prices			
Average Gold Price per oz.	\$500	\$259	93%
Average Copper Price per lb.	\$1.15	\$0.88	31%
Metal Sales Volumes			
Gold — ounces	25,880	21,478	20%
Copper — pounds	9,694,000	6,934,000	40%

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Directors and Officers	IBC
Senior Operating Staff	IBC

Annual Meeting to be held on Thursday, October 30, 1980 at 3:00 p.m. at the Chateau Frontenac, Quebec City, Quebec.

Summary of American Stock Exchange Prices

(U.S. dollars)

Quarter Ended	Class 'A' Shares	
	High	Low
September 30, 1978	6- $\frac{3}{8}$	4- $\frac{7}{8}$
December 31, 1978	6- $\frac{1}{2}$	4
March 31, 1979	6- $\frac{1}{2}$	4- $\frac{1}{8}$
June 30, 1979	6- $\frac{1}{2}$	5- $\frac{1}{8}$
September 30, 1979	10- $\frac{5}{8}$	5- $\frac{1}{2}$
December 31, 1979	10- $\frac{7}{8}$	6- $\frac{7}{8}$
March 31, 1980	14- $\frac{3}{4}$	5- $\frac{5}{8}$
June 30, 1980	12- $\frac{3}{4}$	6- $\frac{1}{2}$
September 30, 1980	15- $\frac{7}{8}$	12

In March 1975, all common shares were reclassified into Class A shares with the right to convert on a share-for-share basis to Class B shares. Comparatively few shares were converted. Class B shares are not traded on the American Stock Exchange. See Notes 8 and 10(b) to the financial statements. In July 1980, Class A and B shares were reclassified into common shares which trade on the Montreal, Toronto and American Exchanges.

Stock Exchange Listings

American Stock Exchange
Montreal Stock Exchange
Toronto Stock Exchange
Symbol CCH

To the Shareholders:

One year ago the Company elected a new Board of Directors with a commitment to a program of growth and diversification. We feel that several important achievements have already been accomplished and that these, together with the dramatic increase in the price of gold, have resulted in a change in the character of the Company. Emphasizing the broadened scope of our Company's business activities, a change of name was approved by Shareholders at a Special Meeting in July.

We are very pleased to report to you the Company achieved record earnings in fiscal 1980, with earnings per share of \$2.17 compared to a previous record of \$1.64 in 1970. Working capital rose by nearly \$6 million despite record capital expenditures and significant investment in other companies.

Some important achievements during the year were:

- Startup of the Gwillim Gold Mine and the new cyanide gold extraction circuit at our mill.
- Decision to invest over \$6,000,000 in sinking an internal shaft to obtain four new working levels below the present workings of the Henderson Mine.
- Realization of a pre-tax profit of \$5,931,000 on the sale of our holdings in Peyto Oils Ltd.
- Acquisition of 480,000 shares (19.2%) of Skye Resources Ltd. which produces petroleum, natural gas and coal in the United States.
- Oil and gas reserves more than doubled over 1979.
- The establishment of Inverness Petroleum Ltd. (our share approximately 53%) which produces oil and gas in Canada and the United States.
- Acquisition of a controlling position in Coal Corporation of America.
- Increase in the Company share capital to enable the Company to make future corporate or asset acquisitions should they become available.
- Record cash flow and earnings.

The dramatic improvement in earnings resulted from higher metal prices, increased metal production and from the profit on the disposal of the shares in Peyto Oils

Ltd. The average selling price of gold almost doubled and in 1980, for the first time, gold represented over 50% of Campbell sales of metals. This is a significant change in that it reduces the Company's vulnerability to the fluctuations of the copper cycle. Oil and gas earnings increased by 30% despite the fall in production due to the gas surplus in Western Canada, and recent discoveries produced significant increases in our oil and gas reserves.

We are still determined to continue with this effort to strengthen and widen the Company's base and to ensure continuing and growing production from the existing Chibougamau mines which, at this stage, still provides the Company's principal cash flow.

In May 1980, on a visit to the Mines, the Board approved the capital expenditure required to develop a recently-discovered ore body at the Henderson Mine. This project has already added 440,000 tons to Category A reserves and should give access to as yet unexplored areas which have excellent potential. The Gwillim Mine started production in April 1980, with few start-up problems. While its contribution in fiscal 1980 was slight, it should provide a valuable contribution over the next three years. Exploration work, designed to increase Gwillim ore reserves, is currently underway.

The Exploration Division remains active across Canada and Mexico. Results of the tin exploration project in the Yukon are encouraging and heavy drilling expenditures are forecast for next year. Recent drilling on the S-3 property, a gold-copper deposit under Lake Chibougamau, has justified the preparation of a project for intensified exploration of the deposit. The recently-opened Western Office has expanded its activities and Mexican exploration has also increased.

The value of the Company's oil and gas properties has more than doubled from \$11 million in 1979 to over \$24 million in 1980, due to increased prices and higher reserves, particularly of oil.

Until July 2, 1980, the Company's oil and gas activities were carried out by CCH Resources Ltd., a wholly-owned subsidiary. On that date, CCH acquired the Canadian subsidiary of Skye Resources Ltd. The result-

Directors' Report to Shareholders

ing enlarged company, known as Inverness Petroleum Ltd., becomes Campbell's principal oil and gas investment. With its excellent staff and good cash flow, we have high expectations for its future growth.

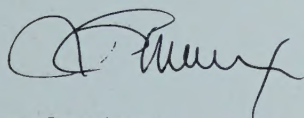
Through its investment in Coal Corporation of America, Campbell has made a start in the coal business. Coal Corporation owns ample reserves to meet its obligations to supply coal under its contract to a Kentucky utility company. In fiscal 1981, the Company expects that Coal Corporation will produce approximately 325,000 tons of steam coal.

Our most important asset is our mining complex at Chibougamau. It is essential that this vital asset be sustained and strengthened. During recent years, other than 1979 and 1980, underground exploration and development have waned and we propose to increase expenditures to build a stronger ore inventory, leading to an expanded throughput at our currently under-utilized mill.

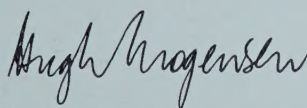
Campbell will continue to seek opportunities to grow and diversify through exploration and through seeking other investment opportunities in or related to the production of natural resources.

To our Staff, we extend our appreciation, thanks and admiration for their enthusiastic work, patience and support.

On behalf of the Board,



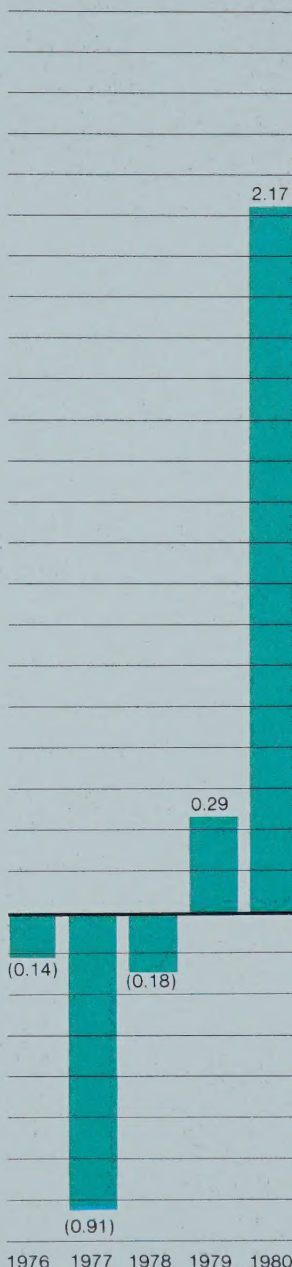
N. Goodman,
Chairman of the Board



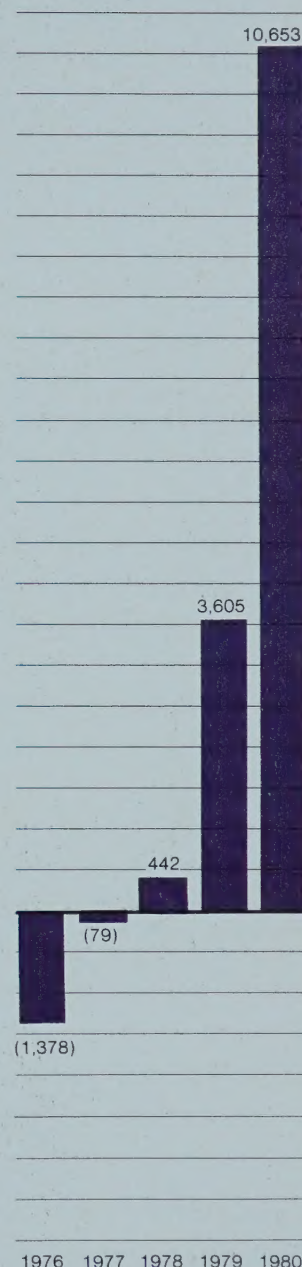
H. Mogensen,
President and Chief
Executive Officer

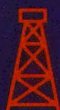
October 6, 1980

Earnings Per Share (Dollars)



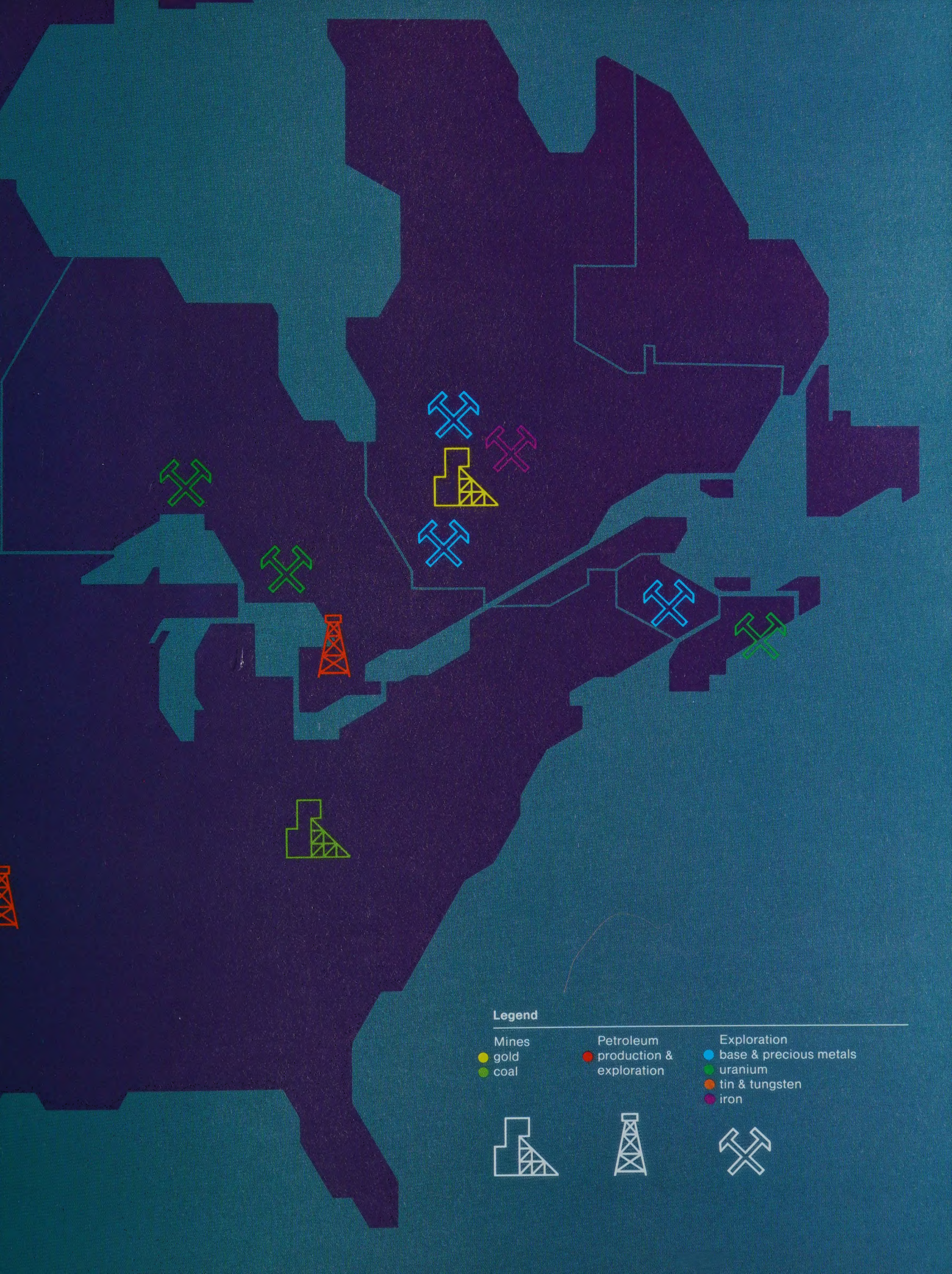
Operating Cash Flow (\$ Thousands)





Company Operations





Legend

Mines
● gold
● coal

Petroleum
● production & exploration

Exploration
● base & precious metals
● uranium
● tin & tungsten
● iron



The Company completed its 25th year of mining operations in fiscal 1980. Income from mining operations more than tripled over the previous year, rising to \$10,993,000 in 1980 from \$3,116,000 in 1979 and from a loss of \$417,000 in 1978. The average selling price of gold almost doubled to \$500 per oz. and that of copper rose by 31% over 1979. The Gwillim Gold Mine was brought into production and a cyanide circuit was added to the mill.

The production results for the year are set out in the following table:

	1980	1979	% Increase 1980 over 1979
Tons Milled (000)	480	326	47%
Metals — Gold — ozs.	26,462	20,881	27%
— Copper — lbs. (000)	9,261	7,943	17%
— Silver — ozs.	41,280	33,072	21%
Grade — Gold — oz. per ton	.065	.080	(19%)
— Copper %	1.08	1.33	(19%)
— Silver — oz. per ton	.21	.24	(12%)

The recovery rate for copper was 96.32%, a company record, and for gold 86.32%. The surface pillar provided 134,000 tons and Gwillim 14,000 tons, mostly

lower-grade, pre-production ore. Tonnage mined from both the Cedar Bay and Henderson Mine also increased.

The Gwillim Gold Mine is located some 14 miles from the Company's mill in Chibougamau. An earlier exploration and development program was terminated in 1975, due to the fall in gold price. The re-opening of this project involved the construction of a bridge and the improvement of the access road, as well as development at the 350-foot level. The mine was brought in on schedule and by June 30, 1980, mine production had reached 75% of the target rate. Reserves at the mine are some 227,000 tons and exploration continues both underground and on surface.

In order to obtain higher recovery of gold from the Gwillim ore than was possible through the existing flotation circuit, the Company installed a cyanide circuit. This circuit was designed by our own staff and is highly automated, capable of being operated by two men. Operations commenced in April 1980, with minimum start-up problems and by year end, the gold recovery rate achieved was 94.6%. The first bullion was shipped to the Canadian Mint for refining on May 26, 1980. Both mine and mill circuit are expected to be working at full capacity during October 1980.



Mining

Above: Looking southwest over the Henderson No. 1 Mine, Lake Chibougamau in the foreground. (Photo C. A. Krause)

Right: The end of the line: Pouring the first gold bullion from the Gwillim Mine. (Photo C. A. Krause)



A major portion of the increase in production in 1980 against 1979 came from the Original Mine surface pillar, which has now been mined out. The ore from Gwillim will, in part, replace that mined from the surface pillar, while output from both the Henderson and Cedar Bay Mines should be maintained at the present levels. As a consequence of favourable exploration results, the Board approved, in May, the sinking of an internal shaft below the lowest present operating level (1975 feet) to an additional depth of at least 800 feet. Total cost of this project is estimated at \$6,300,000. By June 30, 1980, work was well in hand on the excavation of the underground hoist room, waste pass system and the pilot raise for the head frame. A decline had also been driven 150 feet into the new ore zone, giving grades with an average of .121 oz. of gold per ton and 1.19% copper over a nine-foot width. Work on an

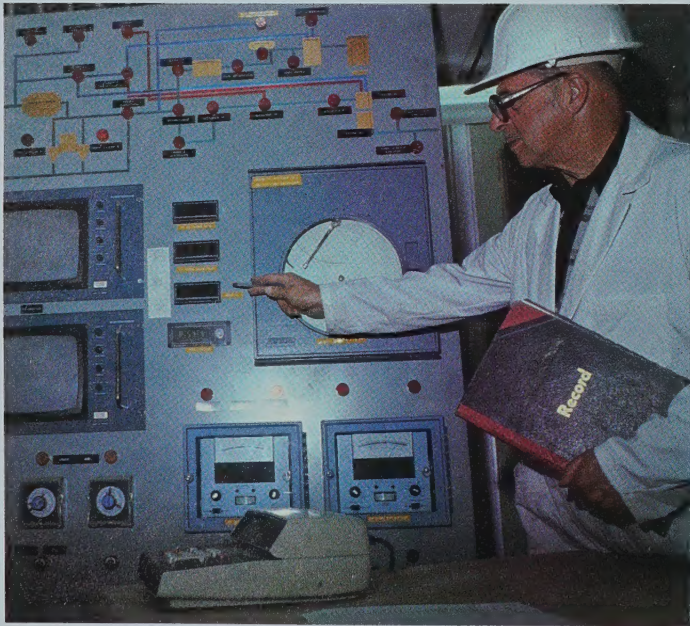
overall basis continues on schedule. This project has already added some 440,000 tons to the reserves and gives access to considerable added potential. The project also offers excellent opportunities for further exploration underground.

Exploration continues underground at both the Cedar Bay and Henderson Mine. The Company reviews on an ongoing basis potential acquisitions in the Chibougamau area and elsewhere in Canada.

Ore Reserves

	June 30 1980			June 30 1979		
	Tons	Oz./Ton Au.	% Cu.	Tons	Oz./Ton Au.	% Cu.
Gold-Copper						
Category A	1,875,000	.055	1.44	1,621,000	.045	1.49
Category B	2,361,000	.005	0.67	2,390,000	.005	0.67
Category C	4,700,000	.028	1.20	4,730,000	.028	1.20
Gold						
Gwillim	227,000	.182	0.10	200,000	.200	0.10
Total	9,163,000	.031	1.09	8,941,000	.029	1.09

- 1) Category A — represents Henderson Mine and Cedar Bay Mine tonnage to be mined in our current five-year plan.
- 2) Category B — represents potential open pit ore.
- 3) Category C — remains in inventory which is regularly



Mining

Left: The central control panel of the new cyanide circuit which can be operated by two men. (Photo B. Goss)

Right: Hauling gold ore up the decline at the Gwillim Mine. (Photo B. Goss)

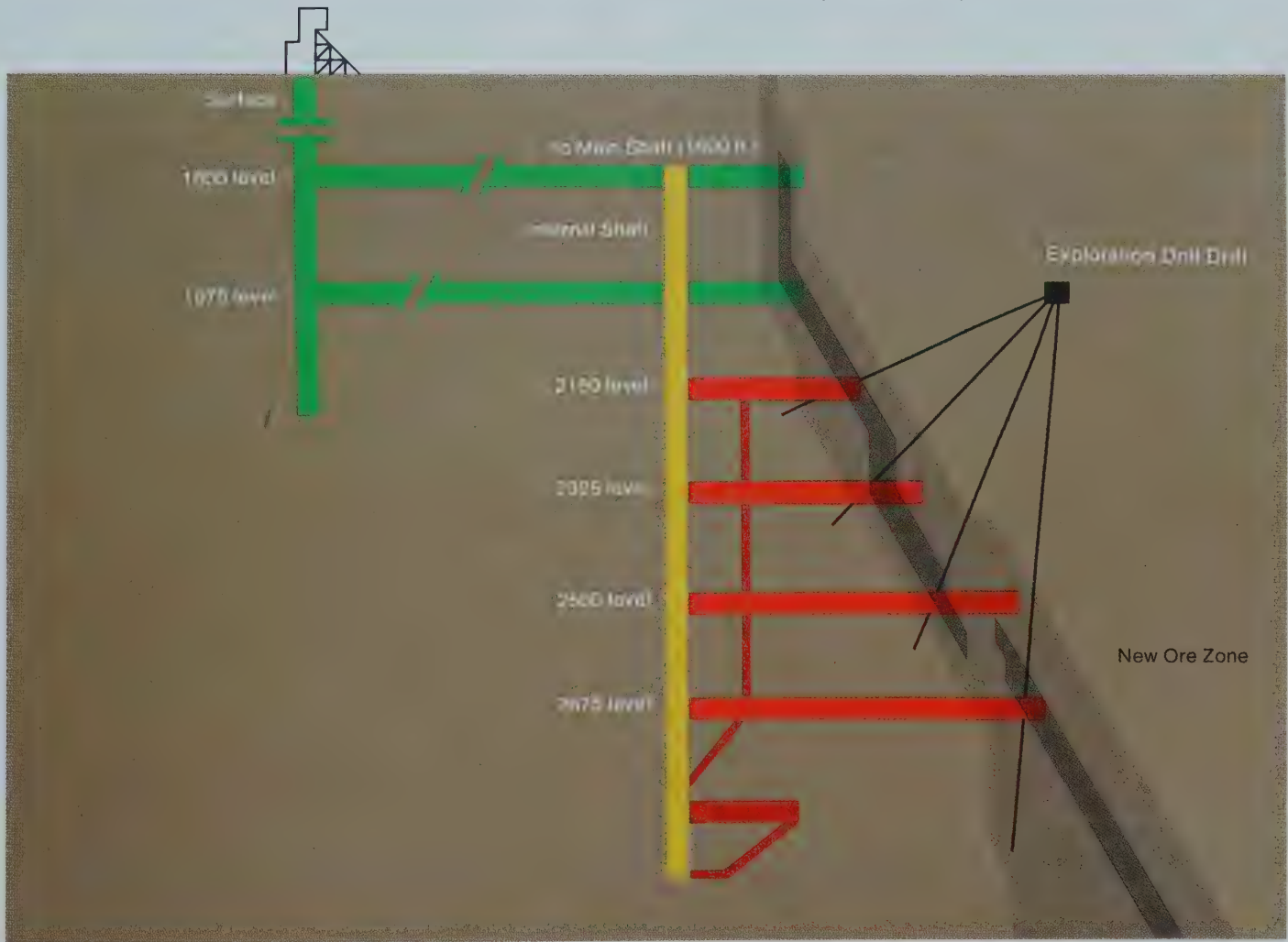
reviewed for economic viability.

4) Grades are adjusted, allowing for 25% dilution, except Gwillim where dilution is 15%.

The total tonnage of the above reserves represent the geological ore reserves of the Company before mining dilution as determined in a consistent manner from year to year. The ore grade is, however, adjusted for dilution, as set out above. Surface and boundary pillars, consisting of 1,199,000 tons, grading 2.53% copper and 0.033 ounce of gold per ton are not included in the summary.

Coal

The Company made its first investment in coal in April 1980 by acquiring in Coal Corporation of America the shares and conversion rights necessary to control this company. Coal Corporation owns properties in Harlan County, Southeastern Kentucky, and through a wholly-owned subsidiary, Shaker Coal Company, in several counties of Northeastern Kentucky. Shaker, under a 10-year contract with a utility company, produces coal at a rate which will increase to 30,000 tons per month in January 1981. A recent report by consultants indicates reserves well above those required to meet contract commitments. Modest production from the Harlan County property is expected to start in the near future. We are optimistic that Coal Corporation has excellent opportunities for growth and that it will become an important Campbell investment.



Above: The above diagram outlines the plan to deepen the Henderson Mine No. 2 by sinking an internal shaft at a depth of at least 800 feet.

Henderson Division Exploration and Development Project

The Company's exploration activities during fiscal 1980 were exciting and fruitful. Total exploration expenditures amounted to \$1,776,000 of which 55% was spent by our Joint Venture partners and 45% was spent by the Company. All the projects were managed by Company personnel. In addition to the above, we spent \$438,000 as our share of the Norcen Uranium Joint Venture which is managed by others. Our Mexican partners expended \$1,000,000 on the Washington Mine as part of earning their interest in the Mine.

Highlights of the past year include:

- Continuing positive results in tin exploration in the Yukon and British Columbia.
- Drill extension with good gold values of the S-3 gold deposit in Chibougamau, Quebec.
- Drill extension with excellent copper-gold values of the Belle deposit located 10 miles from the Chibougamau mill.
- Discovery in Mexico of a potentially important tungsten deposit in Sonora.
- Continued excellent success in increasing the size of the Washington Mine in Sonora, Mexico, where deep drilling by our partners appears to indicate a much larger orebody.

Future exploration policy will include some grassroot joint venture programs but emphasis will be placed on

the acquisition for the Company's account of mineral properties in North America with demonstrated potential for economic ore deposits. In particular, more emphasis will be placed on the exploration potential of the Chibougamau mining camp as well as the expansion of the Company's existing orebodies.

Cortin Joint Venture:

Cortin, is a joint venture exploration project searching for tin in the Yukon and Northern B.C. The project was conceived by and is managed by Campbell's Exploration Staff. The funding is shared equally by Campbell, Canadian Nickel Co. Ltd. (Inco) and Billiton Exploration Canada Ltd. with Campbell's equity interest at 40%.

As previously reported, limited trenching and diamond drilling in late summer, 1979 on the EPD claims tested a tin-silver soils geochemical anomaly leading to discovery of a cassiterite-bearing zone. The best assay reported was 1.03% tin and 0.437 oz. silver per ton over a core length of 6 metres. The 1980 drilling has been stepping out from these first encouraging intersections. The mineralized zone has been traced over 120 m but specific assay data are not yet available. It is anticipated that the 1981 program will require a much expanded budget primarily devoted to drilling on the EPD group as well as additional showings of tin mineralization which have been discovered by the Cortin Venture.



Exploration

Above: Exploration in the North. Helicopters parked by a stream flowing from a hot spring.

Right: Examining copper mineralization, Sonora, Mexico. (Photo F. Guardia)

Inset: Winter drilling on the ice of Lake Chibougamau, Annie Island in the background. (Photo W. Hamilton)



Chibougamau Exploration Joint Venture (CEJV):

In its fifth year of exploration, the CEJV continues with a methodical assessment of 30 townships surrounding the Chibougamau mining camp. The Company manages the project and earns between 28% and 33.8% by expending 22% of the funds. The other participants are Norcen Energy Resources Ltd., Tricentral Canada Ltd., United Canso Oil & Gas Ltd., and Petro Canada Exploration Inc. Two recent projects of particular interest are the diamond drill programs on the Belle 3 copper-gold zone and the S-3 gold-copper deposit.

The Belle 3 zone is located close to the town of Chibougamau about 10 miles from the Company's milling facilities. The deposit consists of a number of sub-parallel, steeply dipping mineralized zones in a complex geological setting. The exact structure and limits of the deposit are yet to be determined, but recent drilling has encountered ore grade intersections of copper-gold mineralization. Some of the more interesting intersections are as follows:

DDH No.	From	To	Width	oz/ton Au	oz/ton Ag	% Cu
BEL — 19	350.2'	352.0'	1.8'	.048	.43	5.14
	382.9'	407.2'	24.3'	.005	.24	2.93
BEL — 20	389.3'	400.8'	11.5'	.003	.63	3.89
BEL — 21	482.6'	486.2'	3.6'	.010	.51	5.33

The S-3 gold-copper deposit lies 8,000 feet from the Company's Henderson No. 1 shaft under the waters of Lake Chibougamau. The deposit has been known for many years but the CEJV undertook a program of reassessment in 1979. Seven holes were drilled from the ice early in 1980 and provided confirmation of the tenor of the mineralization as well as extending the zone a further 250 feet in strike length. Selected results of these holes are as follows:

DDH No.	From	To	Width	oz/ton Au	oz/ton Ag	% Cu
S-3-80-1	818.4'	821.3'	2.9'	.101	.12	.583
S-3-80-2	1028.4'	1052.2'	23.8'	.110	.17	.55
	1137.4'	1159.5'	22.1'	.132	.08	.189
	1204.4'	1217.4'	13.0'	.160	.11	.39
S-3-80-3A	754.0'	763.5'	9.5'	.117	.05	.073
	978.7'	982.5'	3.8'	.362	.17	.210
	1141.9'	1148.5'	6.6'	.218	.21	1.72
S-3-80-4	1033.1'	1033.9'	0.8'	.380	.15	.165
S-3-80-5	937.0'	943.0'	6.0'	.285	.13	.472
	953.4'	959.4'	6.0'	.253	.11	.158
S-3-80-6	528.2'	532.0'	3.8'	.151	.40	.65

Exploration

The geology of the zone is complex and correlation of mineralized zones is uncertain. Further exploration and development work is planned for the coming year.

Echouani Joint Venture:

The Echouani Joint Venture, managed by the Company, is searching for massive sulphides of Archean volcanogenic type within the high-grade metamorphic rocks of the Grenville Province. The Venture is funded by four participants with the Company earning a 25% interest.

The program is in the fourth year and drilling is currently underway on several of the twelve properties that were staked on the basis of airborne electromagnetic surveys followed up by ground geophysical and geological mapping.

Norcen Uranium Joint Venture:

The Company has previously reported progress and its hopes for the Blizzard deposit located in British Columbia. Unfortunately, all work on the ore body and other encouraging prospects in British Columbia, was abruptly curtailed following the imposition by the present Government of that Province of a seven-year moratorium on development and mining of uranium. The moratorium was imposed before the work by the Royal Commission of Enquiry was completed.



Above: Geologists examining cassiterite showings on the Jabberwock claims in the Yukon, Cortin Project. (Photo F. Guardia)

Despite the setback suffered in British Columbia, the Norcen Joint Venture continues an active exploration program in Alberta, Saskatchewan and Nova Scotia. Several prospects are in the drilling stage and we look forward to participation in the exploration program to be conducted by the Joint Venture in 1981.

Other Prospects in Canada:

In the Chibougamau area, outside of the area of interest reserved for the CEJV, the Company is working on several claim groups and has recently acquired under option a 15-claim group on which a number of silver-lead-zinc bearing boulders require detailed follow-up.

In New Brunswick, the Company has acquired nine claim groups by staking in the Caledonia Highlands area. The claims were staked following recognition of a favourable volcanic environment for deposition of massive sulphides. A Government-sponsored airborne electromagnetic survey was vigorously followed up and a number of anomalies were acquired. Ground verification and mapping are underway and drilling is anticipated in 1981.

From the newly established Vancouver Exploration Office a major program, including an airborne electromagnetic survey and diamond drilling, was carried out on two optioned properties with base and precious metal, massive sulphide potential. These properties were previously acquired as a result of a regional drainage geochemical survey over a belt of interesting volcanic rocks. No economic intersections were encountered in the drilling but a number of strong geochemical anomalies must be further explored.

Also in British Columbia, the Company is working on several other base and precious metal prospects and has initiated a program of property evaluation and project development in selected areas of the Province.

Mexican Properties:

Washington Mine

Work is continuing at the Washington Mine breccia pipe and nearby prospects, which are held under option by Compania Fresnillo S.A. (Operator) and Minas Peñoles S.A. de C.V. This work is in the second year of a two-year option period. Under the Agreement, Fresnillo-Peñoles can earn 71% of the shares of Cia

Minera Trans-Rio S.A. de C.V. for the expenditure of \$2,800,000 (U.S.) and other considerations. The Company and its affiliate C.M.&S. Mines Inc. will continue to hold 29% of Trans-Rio after Fresnillo-Peñoles earn their interest.

The Washington Mine shaft has been rehabilitated to the original bottom or 600 foot level to provide access for bulk sampling and drilling the breccia pipe to depth. A drill hole from the 400 foot level that reached down to the 1,000 foot level, 250 feet deeper than previous exploration, has shown the mineralized zone to continue and has demonstrated increasing molybdenum content. The present program is designed to increase the present ore reserves of 1.4 million tons grading 1.69% copper, 0.14% tungsten trioxide, 0.06% molybdenum, 0.44 oz. silver and 0.005 oz. gold per ton.

Preliminary exploration, including diamond drilling, has been carried out on four other targets near the Washington Mine over the last year. Two of these targets have shown encouragement for tungsten in one case and copper-tungsten in another. This work is continuing on other untested targets.

Other Exploration:

The Company has acquired an interesting new property, the Carmelita, in the State of Sonora. This property was acquired in late 1979 under option and covers an extensive skarn horizon that is impressively mineralized by scheelite, the important ore mineral of tungsten. Work to date has included detailed geological mapping and systematic trenching and sampling. It is expected that a major drill program will commence in late 1980.

The Cerro de Oro property is a consolidation of several old claims acquired by staking and option to cover an area of numerous old workings that have produced locally high-grade gold, silver and copper ores. Detailed mapping, surface and underground, are required as an initial phase to the further assessment of the properties.

The Company also holds two large copper-molybdenum porphyry copper prospects in Sonora and is seeking partners for their exploration. We are continuously examining properties with a view to making further acquisitions in Sonora.

The past year was a very eventful one with the sale of the shares in Peyto Oils Ltd., sharp increases in reserves and value of CCH Resources Ltd., the acquisition of Skye Resources (Alberta) Ltd. and the purchase of a 19.2% interest in Skye Resources Ltd.

CCH Resources Ltd.

Cash flow from the oil and gas operations of the Company's subsidiary, CCH Resources Ltd., continued its upward trend, increasing 30% from \$834,000 in 1979 to \$1,089,000 in 1980. The actual volume of gas sales declined to 692 mmcf. in 1980 from 809 mmcf. in 1979, due to the continuing surplus of gas in Western Canada. Cash flow in the U.S. increased from \$53,000 in 1979 to \$196,000 in 1980. Capital expenditure increased by 50%, due to general expansion, particularly in the U.S. Prices of oil and gas were higher, particularly for oil. CCH participated in the drilling of 46 wells in Canada and the U.S. Eight wells were drilled at no cost to the Company, 28 wells were successful and 18 were dry and abandoned. Two wells were being drilled at year end, both of which were successful.

Alberta

In the Venice area, where CCH has from 42.5% to 9.775% interest in 39,205 acres of leases, CCH and its

partners completed a drilling program of 11 wells which were all successful and resulted in an increase in marketable reserves. The gas purchase contract was re-negotiated and increased from 5 mmcf./day to some 8 mmcf./day.

Saskatchewan

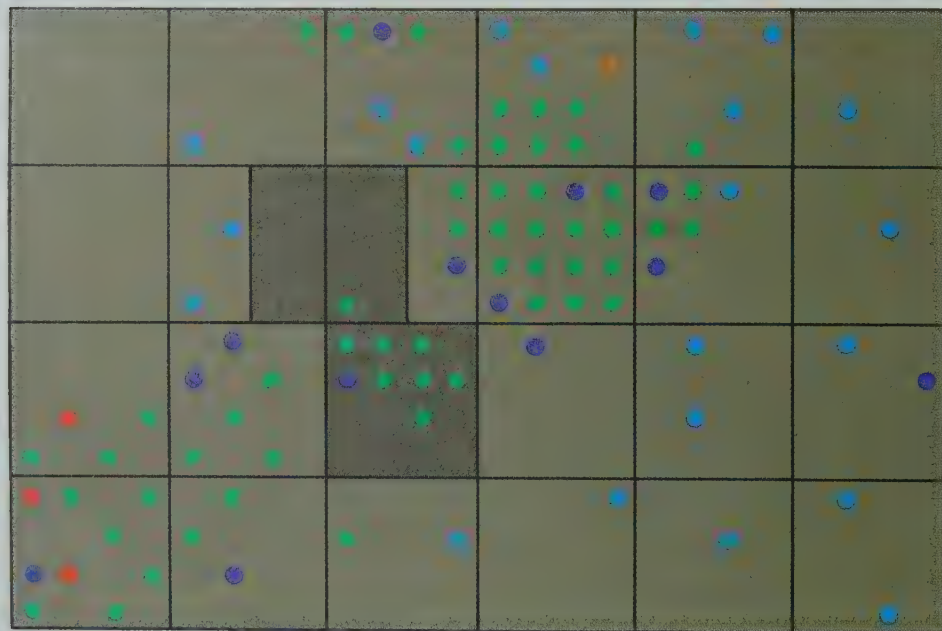
During the year, CCH participated in drilling four successful oil wells at Success and after year end, drilled another two successful wells. The wells are being completed and a tank battery is being installed. The Company has 12.5% to 25% working interest in 1,240 acres. Additional drilling may be undertaken.

A 5,734 acre drilling reservation has been farmed out and two dry holes were drilled on it by others. In another area, a well was drilled on a 160 acre tract and completed as an oil well and an adjoining 160 acre tract was subsequently purchased as protective acreage.

California

CCH has a 7.5% working interest in a 318 acre lease in Los Angeles County. At the end of fiscal year, the well, Newhall Land & Farming Co. #1-20, was drilling and has subsequently reached total depth and is currently being completed as an oil well. The discovery could result in a substantial increase in crude oil reserves and production for the Company.

Success

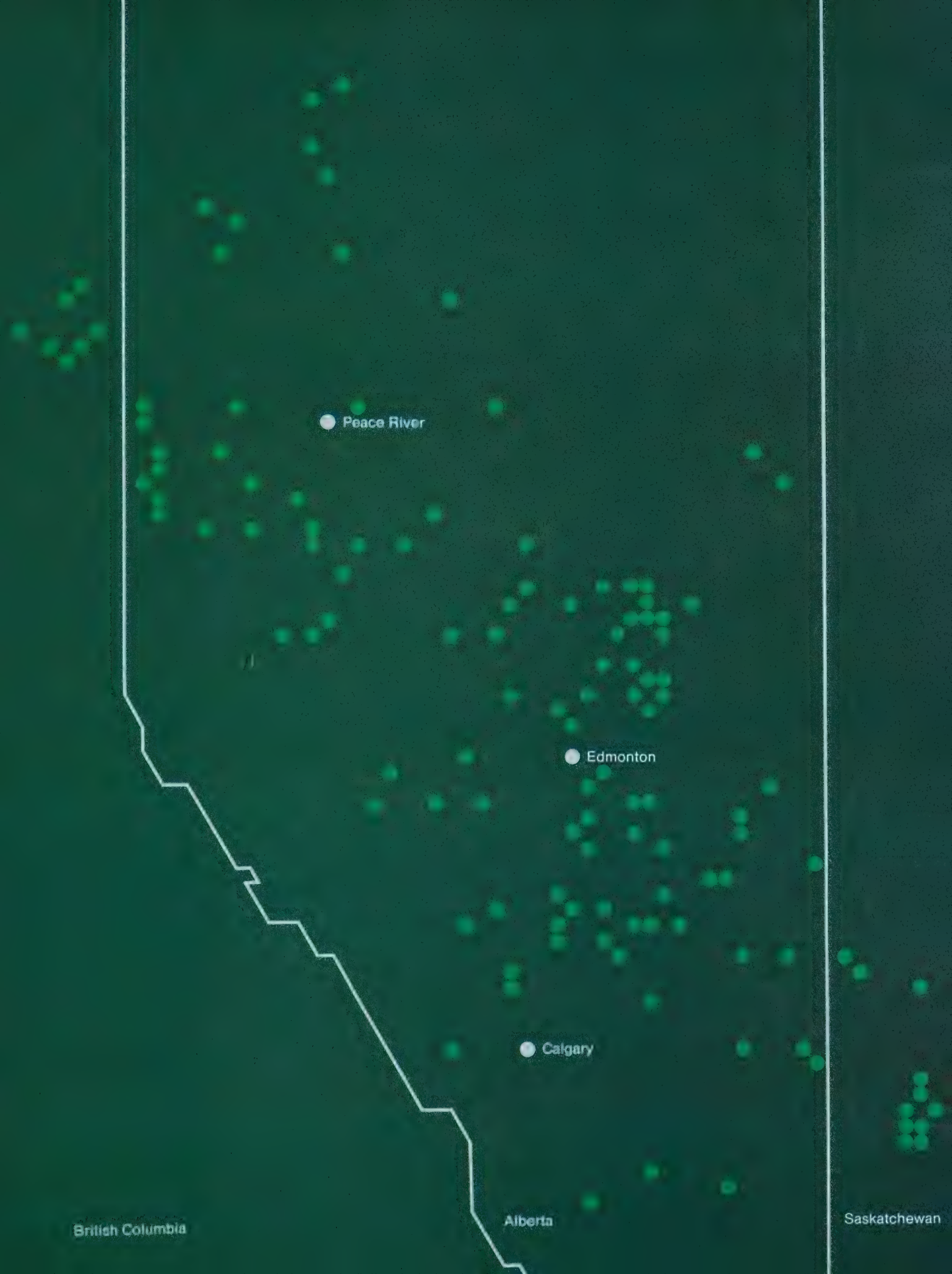


Oil and Gas

Legend

- Oil Well
- Dry Hole
- Abandoned Oil Well
- Gas Well
- Abandoned Gas Well
- New Gas Well Drilled
- Inverness Working Interests

Right: Inverness Petroleum Ltd. Holdings in Western Canada



● Peace River

● Edmonton

● Calgary

British Columbia

Alberta

Saskatchewan

Inverness Petroleum Ltd.

In line with its policy of diversification, the Board determined to expand the Company's interest in the oil and gas industry. To this end, on July 2nd CCH acquired all the shares of Skye Resources (Alberta) Ltd., the Canadian oil and gas subsidiary of Skye Resources Ltd., for shares in CCH plus cash of \$4,268,000. Campbell now holds 53% of the shares in the consolidated company and Skye Resources Ltd. 46²/₃%. The enlarged company has been renamed Inverness Petroleum Ltd.

The calculation of the acquisition price involved the valuation by independent consultants of the oil and gas assets of both CCH and Skye-Alberta. Campbell converted inter-company debt into shares of CCH (now Inverness). The total consideration paid for Skye-Alberta amounted to \$24,428,000. As a result, Campbell now has a majority of a much larger oil and gas company and has also acquired a competent and highly motivated staff, able to manage and expand these assets. Inverness is currently in negotiation with a major underwriter to raise \$12-\$15 million by the sale of common shares to the public.

Evaluation of Oil and Gas Properties

An evaluation by independent consultants of the oil and gas reserves and unproven properties of Inverness Petroleum Ltd. was made as of July 2, 1980. Campbell owns 53% of Inverness and prior to July 2, 1980, owned 98% of CCH Resources Ltd. The evaluation is summarized in the following table:

	Net Reserves After Deduction of Royalties		Present Worth Discounted at 12% Before Income Taxes	
	Inverness Petroleum July 2/80	CCH Resources March 31/79	Inverness Petroleum July 2/80	CCH Resources March 31/79
Oil (proven)	2,539,500 bbls.	143,500 bbls.	\$18,882,600	\$ 1,090,900
Oil (probable)	1,520,900 bbls.	198,300 bbls.	5,335,100	244,200
Total Oil:	4,060,400 bbls.	341,800 bbls.	24,217,700	1,335,100
Gas (proven)	24,240 Mmcf.	7,966 Mmcf.	27,588,500	7,257,100
Gas (probable)	2,091 Mmcf.	828 Mmcf.	1,041,200	221,500
Total Gas:	26,331 Mmcf.	8,794 Mmcf.	28,629,700	7,478,600
Total Oil and Gas:			52,847,400	8,813,700
Unproven Properties			4,550,800	2,459,300
			\$57,398,200	\$11,273,000

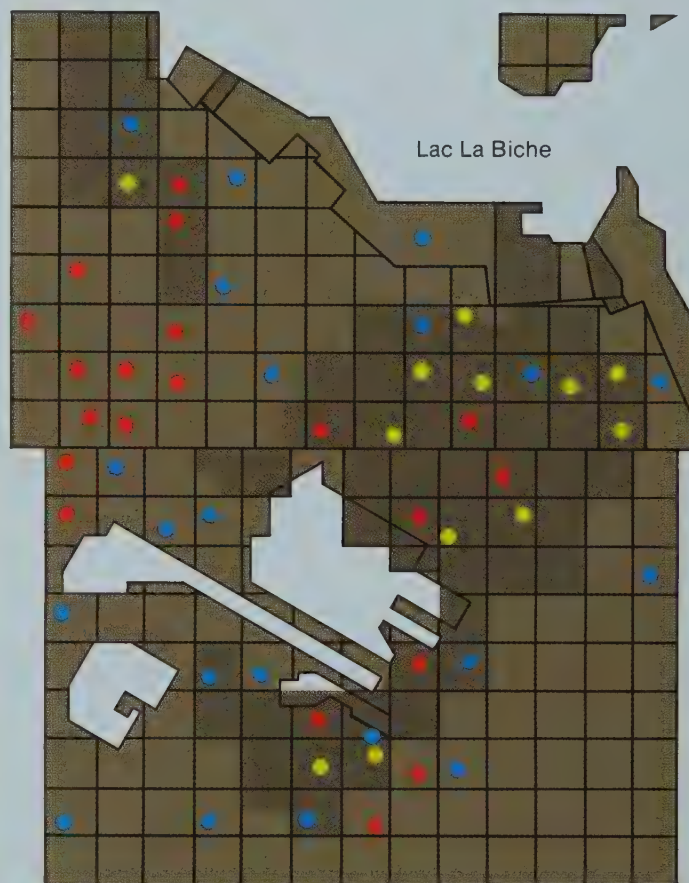
Inverness held unproven properties consisting of 130,000 net acres as of July 2, 1980 and CCH held 107,000 net acres as of March 31, 1979.

Oil and Gas

Skye Resources Ltd.

Skye Resources Ltd. is a Canadian public company quoted on the Toronto Stock Exchange, with oil and gas interests in the U.S. and Canada through Inverness Petroleum. The Company also owns coal operations in the United States. As of October 2, 1980, the stock was trading at \$14 per share.

Campbell had acquired, as of September 26, 1980, 480,000 shares or 19.2% of the issued capital of Skye Resources Ltd., at an average cost of \$11.45 per share. These shares were acquired as a long-term investment. Mr. Hugh Mogensen, President of Campbell, has been appointed to the Board of Skye Resources Ltd.



Legend

- Oil Well
- Dry Hole
- Abandoned Oil Well
- Gas Well
- Abandoned Gas Well
- New Gas Well Drilled
- CCH Working Interests

Venice

All references in the following discussion to the years 1980, 1979 and 1978 are references to fiscal years, unless otherwise indicated. All amounts are in Canadian dollars unless otherwise indicated. The rate of exchange was approximately \$1 Can. = 87¢ U.S. at June 30, 1980.

A Summary

	1980	1979	1978
	(in thousands except earnings per share)		
Key Results			
Mining Income (Loss)	\$10,993	\$3,116	\$(417)
Oil and Gas Income	1,089	834	782
Operating Cash Flow	10,653	3,605	442
Net Income (Loss)	9,462	1,286	(781)
Earnings (Loss) Per Share	\$2.17	29¢	(18¢)
Working Capital Increase (Decrease)	5,803	(3,287)	(2,576)

Overall earnings in 1980 achieved a record high of \$2.17 per share, due to greatly increased income from mining operations and to a profit on the disposal of the shares of Peyto Oils Ltd. Earnings per share from operations were \$1.15 per share, with the investment profit contributing \$1.02.

In 1980, Campbell became a gold-copper as opposed to copper-gold producer, in that the sales of gold exceeded 50% of total sales for the first time. The average selling price of gold doubled from 1979 and almost tripled from 1978. Gold and copper sales increased by 20% and 40% respectively over 1979.

Working capital increased in 1980 for the first time since 1974 despite a 55% increase over 1979 in funds spent on investments, capital expenditures, and on loan repayments. The major project of the mining division was bringing the Gwillim Gold Mine into production and adding the cyanide circuit required to process ore from this mine. Expenditure on oil and gas and minerals exploration also increased by over 50% in 1980 over 1979.

In the area of investment, the Company acquired a 19.2% interest in Skye Resources Ltd. at a cost of \$5,495,000 and also made a small investment in a coal company in the United States. Long-term debt was reduced by \$2,678,000 as a result of selling the shares of Peyto Oils Ltd.

Subsequent to year end, Campbell merged its oil and gas subsidiary with the Canadian oil and gas subsidiary of Skye Resources Ltd., to hold a majority of shares of the combined company now called Inverness

Petroleum Ltd. As part of this transaction, Campbell also invested a further \$4,268,000.

B Earnings

Mining

Mining income rose dramatically during 1980 as compared to that of 1979 and 1978, due to higher metal prices, particularly gold, and to increased metals output, of both copper and gold. The following table summarizes the changes in sales revenues, metal prices and volumes and in output:

	1980	1979	1978
	(Canadian \$)		
Metal Sales (000)	\$25,073	\$11,884	\$ 6,780
Average Selling Price			
Copper — per lb.	115.0¢	87.8¢	60.8¢
Gold — per oz.	\$500	\$259	\$183
Quantities Sold			
Copper — lbs. (000)	9,694	6,934	6,955
Gold — ozs.	25,880	21,478	13,237
Production			
Tons Milled (000)	480	326	244
Copper — lbs. (000)	9,261	7,943	6,213
Gold — ozs.	26,462	20,881	16,586
Inventories at June 30			
Copper — lbs. (000)	2,441	2,874	1,865
Gold — ozs.	7,547	6,965	7,562

Production in 1980 was 47% higher than in 1979 and was almost double that of 1978, due principally to the mining of the surface pillar of the Original Mine (now completed), but also to the expansion of output at both the Cedar Bay and Henderson Mines. Milling of ore from the Gwillim Gold Mine started in April 1980 and made a small contribution after the normal start-up period. Mining costs increased more than proportionately to production, due to inflation and increased labour costs.

Oil and Gas Income

Income from oil and gas rose by 30% over 1979, due to higher prices, particularly for oil. The volume of gas sales declined due to the gas surplus in Western Canada, but this decline was offset by higher oil sales. The following table summarizes these changes:

	1980	1979	1978
Sales (000)	\$1,361	\$1,043	\$940
Operating Income (000)	\$1,089	\$834	\$782
Volumes			
Gas — Mmcf.	692	809	776
Oils — Bbls.	14,655	8,577	7,258
Average Selling Prices			
Gas per Mcf.	\$2.06	\$1.55	\$1.40
Oil per Bbl.	\$26.06	\$15.80	\$12.64

Other Revenue and Expense

	1980	1979	1978
Interest and Other Income (000)	\$541	\$376	\$581
General Administration (000)	\$1,662	\$633	\$489
Mining Operations			
Depreciation and Depletion (000)	\$893	\$697	\$792
Amortization of Deferred Development (000)	\$1,278	\$672	\$514

1) Interest and other income increased as a result of profits made on the sale of short-term investments and higher interest rates. Interest rates were higher as was the average amount invested in short-term securities, due to improved cash flow and the sale of shares in Peyto Oils Ltd.

2) Depreciation increased in 1980 over 1979, due to the heavy capital expenditures incurred, particularly those for the cyanide circuit. The total cost of amortization of deferred development increased over the last three years, principally due to increased production and rising mining costs. The amounts expended for deferred development for the past five years are restated to give effect to the change in accounting principle, discussed below.

3) General administration increased significantly in 1980, due to the proxy contest and costs related thereto, expanded activities and inflation.

4) The effective tax rate increased to 31% in 1980 from 28% in 1979, due to higher rates of income tax and to the effect of mining duty rates graduated in accordance with income. As a partial offset only 50% of the capital gain on the sale of Peyto shares is taxable.

Sale of Investment

During 1980, the Company sold its 494,500 shares in Peyto Oils Ltd. for \$22.75 per share, to earn a profit of \$5,931,000 before taxes and \$4,464,000 after taxes. The cash received was used in part to repay the related bank loan. Interest on long-term debt was higher in 1980

as compared to 1979 due to the cost of this bank loan.

C Changes in Financial Position

The following table summarizes the above changes:

	1980	1979	1978
	(in thousands)		
Investment of Funds			
<i>Operations</i>			
Mining — Equipment	\$ 2,368	\$ 446	\$ 139
— Development	2,201	1,526	473
Oil and Gas	1,929	1,276	2,104
Exploration	1,238	1,097	748
Total Operations	7,736	4,345	3,464
Financial			
Purchase of Shares of Peyto Oils Ltd.	—	5,294	—
Purchase of Shares of Skye Resources Ltd.	4,678	—	—
Investment in Other Companies	1,050	122	71
Reduction in Long-term Debt	2,758	730	202
Total Invested	16,222	10,491	3,737
Sources of Funds Invested			
Operating Income	10,653	3,605	442
Proceeds of Sale of Peyto Shares	11,225	—	—
Loan from Province of Quebec	71	185	604
Bank Loan	—	3,347	—
Other	76	67	115
Total	22,025	7,204	1,161
Increase (Decrease) in Working Capital	\$ 5,803	\$(3,287)	\$(2,576)

Operating

Mining capital expenditure increased significantly in 1980, due to bringing the Gwillim Gold Mine into production and to constructing at the mill the cyanide circuit necessary to process the Gwillim ore. Total spending in 1980 on Gwillim was \$1,804,000 on equipment and \$1,334,000 on development. Expenditure on development at the Henderson and Cedar Bay Mines declined in 1980 after the heavier expenditures of 1979. Increased capital spending on mining operations resulted from higher metal prices and better economic conditions. Capital expenditure at Cedar Bay over the last three years was mostly financed by a loan from the Government of Quebec.

Capital expenditure on oil and gas operations rose by over 50% in 1980 over 1979, due to expansion in the U.S. and the drilling of development wells on the Success and Venice properties in Western Canada. In 1978, the Company invested heavily in lease acquisitions and exploration, whereas in 1979 it concentrated on evaluating and developing the lands.

Expenditures on exploration were higher in 1980

over both 1979 and 1978. The Western Office expanded its operations, particularly in the search for tin in the Yukon, but also for base metals in British Columbia. Uranium expenditures were higher in 1979 than in 1980, due to the costs of the Blizzard Project, now on a hold basis, due to the moratorium on uranium mining in British Columbia.

Financial

Up to June 30, 1980, the Company had purchased 425,100 shares of Skye Resources Ltd. at an average cost of \$11 per share. This investment represents 17.4% of the issued shares of that company. Subsequently the Company acquired a further 54,900 shares at an average cost of \$14.88 per share and now holds 19.2% of Skye Resources Ltd. The quoted market value of these shares was \$14½ per share on October 2, 1980.

Investment in other companies rose in 1980 over 1979. The major item was the investing of \$500,000 (U.S.) in Coal Corporation of America, marking the Company's entry into the coal industry in North America.

D Other Financial Information

Inverness Petroleum Ltd.

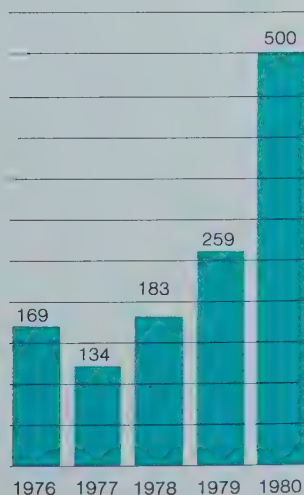
On July 2, 1980, the Company's oil and gas subsid-

iary, CCH, acquired from Skye Resources Ltd. all the shares of Skye Resources (Alberta) Ltd., which in turn owned all the Canadian oil and gas assets of Skye Resources Ltd. The total consideration was \$24,428,000 of which \$4,268,000 was paid in cash and the balance in shares of CCH. Campbell now owns 53% of CCH, which now has total assets of approximately \$45,000,000. CCH recently changed its name to Inverness Petroleum Ltd. These transactions are not recorded in the 1980 Financial Statements.

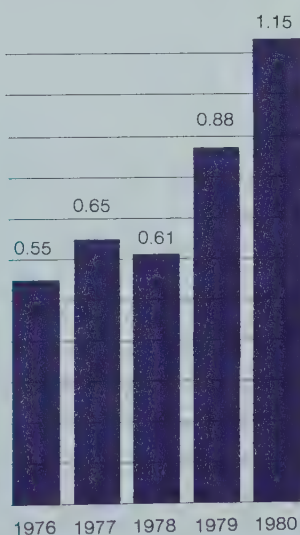
Change in Basis of Accounting for Deferred Mining Development Costs

During 1980, the Company modified its accounting policy in regard to the amortization of deferred mining development costs and now bases this amortization on recoverable reserves on a mine-by-mine basis, whereas previously total geological reserves were used. It is considered that this modified base results in a more reasonable allocation of deferred development since it gives greater weight to current economic expectations. As a result of this change, the value of deferred development costs were reduced by \$3,968,000 and deferred income taxes and retained earnings reduced by \$1,499,000 and \$2,469,000 respectively. The 1979 Financial Statements have been restated to give effect to this change as have amounts appearing in the Five Year Review and elsewhere in this Annual Report.

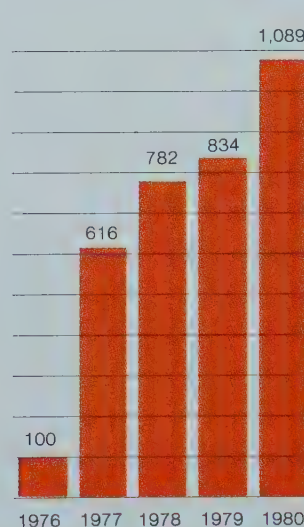
Sale Price — Gold
(Dollars)



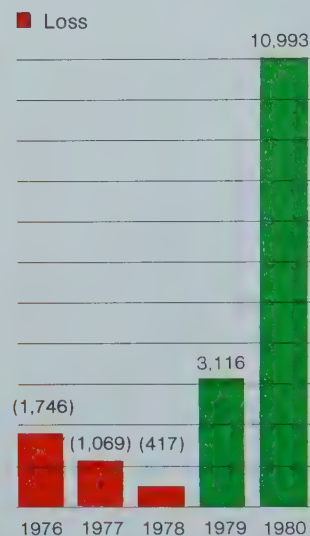
Sale Price — Copper
(Dollars)



Oil & Gas Cash Flow
(\$ Thousands)



Mining Income
(\$ Thousands)



Five Year Review

(Amounts in thousands of Canadian dollars unless otherwise shown)

Notes:

1. Normal mining operations were suspended in fiscal 1976.
2. Comparative figures have been restated — see Note 2 of the Financial Statements.
3. Share prices reported on calendar year basis. 1980 9 months to September 30.

Operating Information	1980	1979	1978	1977	1976
Sales					
Pounds copper — in thousands	9,694	6,934	6,955	6,386	1,656
Average copper price — per lb.	115.0¢	87.8¢	60.8¢	64.5¢	55.5¢
Ounces gold — in thousands	26	21	13	13	3
Average gold price — per oz.	\$500	\$259	\$183	\$134	\$169
Ounces silver — in thousands	46	29	23	19	4
Average silver price per oz.	\$23.18	\$7.83	\$5.35	\$4.59	\$4.88
Natural gas — mmcf.	692	809	776	847	280
Production					
Tons milled — in thousands	480	326	244	288	45
Returnable copper lbs. — in thousands	9,261	7,943	6,213	7,989	1,019
Returnable gold ozs. — in thousands	26	21	17	14	3
Returnable silver ozs. — in thousands	41	33	23	23	4
Financial Information					
Earnings					
Metal Sales	25,073	11,884	6,780	5,906	1,412
Operating income (loss) on mining operations	10,993	3,116	(417)	(1,069)	(1,746)
Operating income — oil and gas	1,089	834	782	616	100
Interest and other income (net)	233	288	566	913	778
General Administration	1,662	633	489	539	510
<i>Operating Cash Flow</i>	10,653	3,605	442	(79)	(1,378)
Amortization — mining	2,540	1,458	1,391	1,535	367
— oil and gas	429	356	294	139	81
Special write-down of mining assets				5,125	
<i>Income (loss) before special items and deferred taxes</i>	7,684	1,791	(1,243)	(6,878)	(1,826)
Gain on sale of investments	5,931				555
<i>Net income (loss) per share</i>	9,462	1,286	(781)	(3,985)	(594)
Per share	\$2.17	\$0.29	(\$0.18)	(\$0.91)	(\$0.14)
Changes in Financial Position					
<i>Sources —</i>					
From operations	10,653	3,605	442	(79)	(1,378)
Long-term financing	71	185	604	322	
Other (net)	8,623	67	115	82	1,915
Total	19,347	3,857	1,161	325	537
<i>Application —</i>					
Capital outlays — Mining	4,569	1,972	612	167	546
— Oil and gas	1,929	1,276	2,104	1,179	287
— Exploration	1,238	1,097	748	625	493
Reduction in long-term loans	80	730	202	153	
Investments	5,728	2,069	71	220	97
Total	13,544	7,144	3,737	2,344	1,423
Increase (decrease) in working capital	5,803	(3,287)	(2,576)	(2,019)	(886)
Financial Position					
Working capital	9,798	3,995	7,282	9,858	11,877
Long-term debt	686	3,373	571	169	
Shareholders' equity	38,213	28,751	27,465	28,246	32,231
Per share	\$8.75	\$6.58	\$6.29	\$6.47	\$7.38
Share price — high (Canadian \$)	\$18.25	\$12.50	\$7.75	\$4.75	\$4.65
— low	\$7.25	\$5.00	\$3.40	\$2.90	\$2.80

Consolidated Statements of Income and Retained Earnings

(stated in thousands of Canadian dollars)

Campbell Resources Inc.
(No Personal Liability)
(Note 10(b))

Years ended June 30,	1980	(restated — note 2) 1979
Statement of Income		
Revenue:		
Metal sales	\$ 25,073	\$ 11,884
Petroleum and natural gas sales	1,361	1,043
Interest and other income	541	376
	<u>26,975</u>	<u>13,303</u>
Operating expenses:		
Mining operations	14,080	8,768
Petroleum and natural gas operations	272	209
General administration (note 10(b)(iv))	1,662	633
Interest on long-term debt	308	88
	<u>16,322</u>	<u>9,698</u>
Operating income before the undernoted items	<u>10,653</u>	<u>3,605</u>
Provisions:		
Mining operations —		
Depreciation and depletion	893	697
Amortization of development costs	1,278	672
Exploration expenditures	369	89
	<u>2,540</u>	<u>1,458</u>
Petroleum and natural gas operations —		
Depreciation and depletion	429	356
	<u>2,969</u>	<u>1,814</u>
Income before gain on sale of investment and taxes	<u>7,684</u>	<u>1,791</u>
Gain on sale of investment (note 4)	<u>5,931</u>	
Income before deferred income taxes and deferred mining duties	<u>13,615</u>	<u>1,791</u>
Deferred income taxes and deferred mining duties	<u>4,153</u>	<u>505</u>
Net income	<u>\$ 9,462</u>	<u>\$ 1,286</u>
Net income per share	<u>\$ 2.17</u>	<u>\$ 0.29</u>
Statement of Retained Earnings		
Balance, beginning of year:		
As previously reported	\$ 18,115	\$ 16,802
Adjustment arising from change in basis of accounting for deferred mining development costs (net of deferred income taxes of \$1,499,000 in 1980 and \$1,484,000 in 1979) (note 2)	(2,469)	(2,442)
As restated	<u>15,646</u>	<u>14,360</u>
Net income	<u>9,462</u>	<u>1,286</u>
Balance, end of year	<u>\$ 25,108</u>	<u>\$ 15,646</u>

See accompanying notes

Consolidated Balance Sheet

June 30, 1980
(stated in thousands of Canadian dollars,
with comparative figures
at June 30, 1979)

		(restated — note 2)
Assets	1980	1979
Current assets:		
Cash	\$ 88	
Short-term investments	\$ 1,385	748
Metal settlements and other receivables	3,657	1,813
Metals in process (estimated net realizable value — \$7,374,000; 1979 — \$5,296,000)	5,233	3,921
Mine and mill supplies	1,662	1,460
Deposits on gold futures contracts (note 7)	3,840	
	<u>15,777</u>	<u>8,030</u>
Investments (note 4)	<u>8,539</u>	<u>8,105</u>
Investments in natural resource properties (note 5):		
Mining operations	11,781	9,475
Exploration expenditures	6,185	5,300
Petroleum and natural gas operations	6,639	5,139
	<u>24,605</u>	<u>19,914</u>
	<u>\$ 48,921</u>	<u>\$ 36,049</u>

Auditors' Report

To the Shareholders of
Campbell Resources Inc. (No Personal Liability)
(formerly Campbell Chibougamau Mines Ltd.
(No Personal Liability)):

We have examined the consolidated balance sheet of Campbell Resources Inc. (No Personal Liability) as at June 30, 1980 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us, and as shown by the books of the Company, these consolidated financial statements are

drawn up so as to exhibit a true and correct view of the state of the affairs of the Company as at June 30, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the change in the basis of accounting for deferred mining development costs as described in note 2 to the consolidated financial statements.

Toronto, Canada,
August 20, 1980.

Arthur Young, Clarkson,
Gordon & Co.
Chartered Accountants

			(restated — note 2)
Liabilities	1980		1979
Current liabilities:			
Outstanding cheques less bank balances	\$ 466		
Accounts payable and accrued liabilities	5,433	\$ 3,366	
Current portion of long-term debt	80	669	
	<u>5,979</u>	<u>4,035</u>	
Long-term debt:			
Province of Quebec (note 6)	686	695	
Bank loan (note 4)		2,678	
	<u>686</u>	<u>3,373</u>	
Deferred income taxes and mining duties	<u>4,043</u>	<u>(110)</u>	
Shareholders' equity:			
Capital stock —			
Shares of the par value of \$1 each (notes 8 and 10(b)):			
Authorized —			
5,000,000 Class A shares			
500,000 Class B shares			
Issued and outstanding —			
4,483,017 Class A and B shares	4,483	4,483	
Contributed surplus — premium on shares	8,622	8,622	
	<u>13,105</u>	<u>13,105</u>	
Retained earnings	25,108	15,646	
	<u>38,213</u>	<u>28,751</u>	
	<u>\$ 48,921</u>	<u>\$ 36,049</u>	

On behalf of the Board:
 Ned Goodman, Director
 Hugh Mogensen, Director

Consolidated Statement of Changes in Financial Position

Campbell Resources Inc.
(No Personal Liability)
(Note 10(b))

(stated in thousands of Canadian dollars)

(restated —
note 2)

Years ended June 30, 1980 1979

Source of funds:

Operations —

Operating income before provisions, and
deferred income taxes and deferred
mining duties

\$ 10,653 \$ 3,605

Less gains on sales of fixed assets 70 171

10,583 3,434

Proceeds on sale of Peyto Oils Ltd. 11,225

Less repayment of related long-term debt 2,678 8,547

Proceeds of loan from Province of Quebec 71 185

Proceeds on sales of fixed assets 146 238

Total funds provided 19,347 3,857

Application of funds:

Purchase of shares in —

Skye Resources Ltd. 4,678

Peyto Oils Ltd. 5,294

Less bank loan to finance purchase of shares 3,347

4,678 1,947

Petroleum and natural gas operations —

Expenditures on leases including

exploration and development costs 1,683 1,089

Purchases of equipment 246 187

1,929 1,276

Mining operations —

Mining property, plant and equipment 2,368 446

Deferred development costs 2,201 1,526

4,569 1,972

Exploration expenditures 1,238 1,097

Reduction in long-term debt 80 730

Investments in and advances to associated
and other companies 1,050 122

Total funds applied 13,544 7,144

Increase (decrease) in working capital during the year 5,803 (3,287)

Working capital, beginning of year 3,995 7,282

Working capital, end of year \$ 9,798 \$ 3,995

See accompanying notes

Notes to Consolidated Financial Statements

(stated in Canadian dollars)

Campbell Resources Inc.
(No Personal Liability)
(Note 10(b))

June 30, 1980

1. Accounting policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

The following is a summary of the more significant policies followed in their preparation:

a) Basis of consolidation and accounting for investments —

The accompanying consolidated financial statements include the accounts of Campbell Resources Inc. and its subsidiaries, CCH Resources Ltd. and CCH Resources Inc., both 98% owned oil and gas companies. The share investment in C.M. & S. Mines Inc. ("C.M. & S."), in which the Company has effective control but not majority share ownership, is accounted for on the equity basis under which the carrying value of the investment reflects the cost thereof reduced by the Company's share of C.M. & S.'s accumulated deficit. Other investments are carried at cost.

b) Valuation of metals in process and recording of metal sales —

Metals in process are valued at the lower of cost and net realizable value. Cost includes direct labour, supplies consumed and the proportion of administrative expenses that relates to mining operations but does not include depreciation, depletion and amortization of related mining assets.

The sale of metals processed other than through the cyanide circuit is recorded in income three months after arrival of the concentrate at the custom smelter, which is the normal time period required to smelt, refine and sell the metals contained in the concentrate. The sale of metals produced through the cyanide circuit, all of which are precious metals, is recorded in income when the metals are refined which is usually within one month of shipment to the refinery.

c) Amortization of mining assets —

i) Depletion is provided on mining properties at a rate per ton milled which is determined by dividing the undepleted cost of each property by the economically recoverable proven and probable ore reserves related to that property.

ii) Depreciation of buildings and equipment is provided largely on the straight-line basis at a 6% annual rate.

iii) Development costs are deferred and charged against income at a rate per ton milled computed on a

mine-by-mine basis by dividing the unamortized development costs and anticipated future development costs by the proven and probable economically recoverable ore reserve tonnage applicable to that mine. This policy was adopted during 1980 as discussed in note 2.

iv) Exploration expenditures are deferred by specific project and are written off if the project is abandoned.

v) In addition to the normal provisions described above, a special provision of \$5,125,000 was made in fiscal 1977, in light of then-existing metal prices and other factors, to write off the balance of property, development and exploration costs related to the Main and Cedar Bay Mines.

d) Accounting for petroleum and natural gas operations —

The Company follows the full cost method of accounting whereby all costs related to acquisition, exploration for and development of oil and gas reserves are capitalized and depleted by a composite unit-of-production method based on total estimated proven reserves.

Depreciation of production and other equipment is provided on the straight-line basis at rates ranging from 5% to 20%.

e) Income taxes and mining duties —

The Company follows the tax allocation method of providing for income taxes and mining duties. On this basis, taxes and duties deferred to future years as a result of timing differences between accounting income and income for tax and mining duty purposes (principally depreciation and development costs) are recorded as deferred income taxes and deferred mining duties.

f) Earnings per share —

The computation of earnings per share is based on the weighted average number of shares outstanding during the year (4,368,444 shares in 1980 and 1979) after reflecting the deduction of the Company's pro rata interest (note 4) in those of its own shares held by C.M. & S. Mines Inc.

2. Change in basis of accounting for deferred mining development costs

In fiscal 1980 the Company adopted the amortization policy for deferred mining development costs described in note 1(c) (iii) above. Previously, amortization charges were computed by dividing the total of unamortized and anticipated future development costs for all mines on an aggregate basis by the total of geological reserves. As a result of this change, net income for the 1980 year is \$142,000 (3¢ per share) less than the amount that would otherwise have been reported. The modified policy has been applied retroactively in these consolidated financial statements with the result that net income for the year ended June 30, 1979 has been reduced by \$27,000 (1¢ per share), and the investment in mining operations, deferred income taxes and mining duties and retained earnings at that date reduced by \$3,968,000, \$1,499,000 and \$2,469,000 respectively from amounts previously reported.

3. Segmented information

The Company and its subsidiaries are engaged in three lines of business activity as follows:

Mining — Mining and milling of base and precious metals in Quebec, Canada.

Exploration — Managing of and participation in mineral exploration ventures in Canada and Mexico.

Petroleum and natural gas — Production of and exploration for petroleum and natural gas in Western Canada and the United States.

Revenues, expenses and capital expenditures by lines of business activity are set out in the consolidated statements of income and changes in financial position. Of the total assets of \$48,921,000 at June 30, 1980, \$30,890,000 related to mining activities, \$6,255,000 to exploration and \$11,776,000 to petroleum and natural gas operations.

4. Investments

Investments consist of the following:

	Direct interest	(in thousands) Carrying value	
		1980	1979
Peyto Oils Ltd. — 494,500 shares (quoted market value 1979 — \$6,676,000)			\$ 5,294
C.M. & S. Mines Inc. — 1,938,661 shares (quoted market value: 1980 — \$1,939,000; 1979 — \$950,000)	42.1%	\$ 1,212	1,199
10% income debentures due August 1, 1984		397	397
Cia Minera Trans-Rio, S.A. de C.V. ("Trans-Rio") — 24,500 shares (10,000 in escrow) (no quoted market value)	24.5%	65	65
Advances		1,007	966
Skye Resources Ltd. — 425,100 shares (quoted market value: \$5,526,000)	17.4%	4,678	
Coal Corporation of America — 225,000 shares (no quoted market value)	21.2%	120	
Advances		478	
Others		582	184
		\$ 8,539	\$ 8,105

The Company sold its holdings of 494,500 shares of Peyto Oils Ltd. in January, 1980 for \$11,225,000, resulting in a gain of \$5,931,000. Related deferred income taxes amount to \$1,467,000. The funds received from this sale were in part used to repay a bank loan incurred to acquire the shares.

The book value of the equity underlying the Company's share investment in C.M. & S. was \$854,000 at June 30, 1980 and its share of income for the year then ended, included in interest and other income, was \$13,000. The quoted market value and carrying value of this investment do not necessarily represent the value of the Company's interest in C.M. & S., the underlying assets of which are comprised mainly of mining claims, deferred expenses and marketable securities, including 272,010 shares of the Company carried at cost of \$575,000 at June 30, 1980 and 1979.

In addition to the Company's direct interest in Trans-Rio, C.M. & S. holds a further 24.5% of the common shares of that company. On completion of an exploration program, two Mexican companies will have the right to acquire 10,000 of the Company's shares and an equal number of C.M. & S.'s shares of Trans-Rio

at their approximate cost to the companies and, under certain conditions, to bring Trans-Rio's Washington Mine into production. If this right is exercised, the Company and C.M. & S. will each retain a 14½% equity interest in Trans-Rio.

Subsequent to the year end, the Company pledged its shares of Skye Resources Ltd. as security against a bank loan of \$4,000,000 (see note 10(a)).

Certain investment transactions, as well as certain of the gold futures transactions described in note 7, were effected through an investment dealer of which a director and officer of the Company is an officer and shareholder. Commissions of \$58,000 paid on these transactions were at rates not greater than rates paid on similar transactions placed through other investment dealers.

5. Investments in natural resource properties

Investments in natural resources properties are as follows:

	1980		1979	
	Cost	Accumulated depreciation, depletion and amortization	Net book value	Net book value
	(in thousands)		(restated — note 2)	
Mining —				
Properties	\$ 5,797	\$ 5,196	\$ 601	\$ 712
Buildings and equipment	20,413	13,581	6,832	5,338
Deferred development	21,513	17,165	4,348	3,425
	\$47,723	\$35,942	\$11,781	\$ 9,475
Exploration expenditures on base metal, iron ore and uranium properties			\$ 6,185	\$ 5,300
Petroleum and natural gas —				
Lease rights including exploration and development costs related thereto	\$ 6,884	\$ 1,235	\$ 5,649	\$ 4,336
Production and other equipment	1,190	200	990	803
	\$ 8,074	\$ 1,435	\$ 6,639	\$ 5,139

6. Loan from the Province of Quebec

At June 30, 1980, the Company owed \$766,000 to the Province of Quebec in respect of a 5% loan obtained for ore reserve development and exploration at the Cedar Bay Mining Division. Under the terms of the loan agreement, the amount borrowed and interest thereon is repayable only to the extent of 30% of such operating profits (as defined) as are earned from mining at the Cedar Bay Mining Division. At June 30, 1980 \$80,000, included in current liabilities, is repayable under this provision.

7. Deposits on gold futures contracts

The Company has adopted the policy of selling a portion of its gold production forward one year as protection against a possible decline in gold prices. The amount of \$3,840,000 shown as "Deposits on gold futures contracts" in the consolidated balance sheet at June 30, 1980 represents margin deposits on contracts covering the sale of approximately 19,000 ounces of gold at an approximate average price of \$550 U.S. per ounce and is recoverable on the closing of these contracts. Approximately 4,800 ounces of these forward sales have been taken into account in the determination of net realizable value of metals in process set out in the consolidated balance sheet at June 30, 1980.

8. Capital stock

The Class A and B shares are interconvertible and are identical in all respects, including dividend rights. Subsequent to the year end the shareholders approved the reclassification of Class A and B shares into common shares and certain other changes in the authorized capital of the company as described in note 10(b).

9. Litigation

The Company is a Defendant together with other companies in an action in the Superior Court of the Province of Quebec claiming an injunction to restrain defendants from any further activities in certain of the areas in which they operate in the Province of Quebec and various amounts of damages, \$1,540,000 in the case of the Company, based on alleged environmental contamination and interference with alleged rights of the Cree Indians. The action is being contested and Counsel for the Company is of the opinion that the

Company has a valid substantive defence to this action. Accordingly no provision has been made in these consolidated financial statements for any liability which may arise therefrom.

10. Subsequent events

a) On July 2, 1980, the Company's subsidiary, CCH Resources Ltd. ("CCH"), acquired all the outstanding shares of Skye Resources (Alberta) Ltd., a subsidiary of Skye Resources Ltd., for \$24,428,000. The consideration paid to Skye Resources Ltd. consisted of 2,874.38 shares of CCH Resources Ltd. valued at \$20,160,000, cash of \$4,000,000 and a note payable on August 2, 1980 for \$268,000. Prior to the acquisition, the Company increased its shareholding in CCH by the conversion of intercompany debt, amounting to \$8,798,000, and by an additional purchase of shares for cash of \$4,000,000. As a result of these transactions, the share interest of the Company in CCH was reduced to 53.0% and the interest of Skye Resources Ltd. became 46.7%.

b) At a Special General Meeting of shareholders held on July 14, 1980 the Company's shareholders approved resolutions authorizing the following:

- i) changing the name of the Company from Campbell Chibougamau Mines Ltd. to Campbell Resources Inc. (No Personal Liability);
- ii) increasing the authorized capital of the Company from 5,000,000 Class A shares and 500,000 Class B shares of \$1 par value each to 9,500,000 Class A

shares and 500,000 Class B shares and creating 5,500,000 first preferred shares of \$15.00 par value each, issuable in series;

iii) reclassifying the Class A shares and Class B shares as common shares of \$1.00 par value each;

iv) ratifying the decision of the Board of Directors who had approved the reimbursement of the out-of-pocket expenses of approximately \$440,000 incurred by the Shareholders' Committee, which consisted of the Company's present directors, in a proxy contest between the Shareholders' Committee and the Company's former directors. This amount is included in general administration expense in the consolidated statement of income.

v) ratifying the decision of the Board of Directors which established a share option plan for certain full-time employees and granted options on similar terms to two key officers. Under these arrangements, options have been granted to employees and officers for the purchase from treasury of 179,000 of the Company's common shares at \$6.75 per share exercisable from March 27, 1981 to March 27, 1985. The Company has reserved 200,000 common shares for purposes of the above-mentioned arrangements.

Corporate Data

Executive Office

55 Yonge Street, Toronto,
Ont. M5E 1J4

Head Office and Mine Office

Chibougamau, Que. G8P 2K9

Western Exploration Office

A-105 Marine Building,
33 Burrard Street,
Vancouver, B.C. V6C 2G6

Inverness Petroleum Ltd.,

Suite 1410, Suncor Building,
500-4th Avenue,
Calgary, Alberta T2P 2T8

Coal Corporation of America

P.O. Box 215
Grayson, Kentucky 41143

Registrar & Transfer Agents

Montreal Trust Company,
Toronto and Montreal

The Trust Company of New
Jersey, Jersey City, N.J.

Auditors

Arthur Young, Clarkson,
Gordon & Co., Toronto, Ont.

Directors

Austin C. Beutel †
President & Director,
Beutel, Goodman &
Company Ltd.,
Investment Counsel,
Toronto, Ontario.

John J. Fleming
Chairman of the Board,
Bonanza Oil & Gas Ltd.,
Calgary, Alberta.

Ned Goodman *
Chairman of the Board,
Vice-President & Director,
Beutel, Goodman &
Company Ltd.,
Investment Counsel,
Toronto, Ontario.

Myron I. Gottlieb *
Secretary-Treasurer,
President & Director,
Merit Investment
Corporation,
Investment Dealer,
Toronto, Ontario.

Douglas W. Hilland †
Lawyer,
President & Director,
Erin Resource
Management Ltd.,
Management Service
Company,
Calgary, Alberta.

Hugh Mogensen *□
President & Chief
Executive Officer,
Calgary, Alberta.

Alexander Polett †□
Investor & Consultant,
Rockville, Maryland.

Seymour Schulich
Vice-President & Director,
Beutel, Goodman &
Company Limited,
Investment Counsel,
Toronto, Ontario.

Harold R. Steele
President, Eastern
Provincial Airways Limited,
Commercial Air Carrier,
Gander, Newfoundland.

* Member of the Executive
Committee

† Member of the Audit Committee

□ Member of the Public Relations
Committee

Officers

Ned Goodman
Chairman of the Board

Hugh Mogensen
President & Chief
Executive Officer

Myron I. Gottlieb
Secretary-Treasurer

J. Gordon Strasser
Executive Vice-President

John H. Rutherford
Vice-President — Finance

Charles A. Krause
Vice-President —
Exploration

Christopher N. Letros
Assistant Treasurer

Senior Operating Staff

Mining *Chibougamau*

Jean C. Rouvier
Mine Manager
and Chief Engineer

Léo Côté
Assistant Mine Manager
and Chief Geologist

J. Yvan Côté
Superintendent of
Metallurgy

Fernand J. Lemieux
Mine Superintendent —
Open Pit and Gwillim

Enrico Boiocchi
Mine Superintendent —
Henderson

Clément Nadeau
Mine Superintendent —
Cedar Bay

Jean Dion
Mine Accountant

René Martineau
Manager — Personnel

Laurent Nolet
Superintendent of
Maintenance

André Cauchon
Mill Superintendent

Dillon Tanguay
Master Mechanic

Marcel Rouleau
Chief Assayer

Gilbert Lamarche
Mine Purchasing Agent

Executive Office
Lyall W. Chapman
Executive Assistant

Exploration
Toronto
Frank Guardia
Exploration Manager

Dr. K. Sethuraman
Chief Research Geologist

Chibougamau
Bill Hamilton
Field Manager — East

Vancouver
Gordon Ford
Field Manager — West

Angus Woodsend
Field Manager — North

Mexico
Alfonso Daco
Chief Exploration
Geologist

Administration
Paul A. Quigley
Executive Office
Accountant

Inverness Petroleum Ltd.
Harold V. Pedersen
Executive Vice-President

Peter Podmaroff
Vice-President

E. John Spargo
Operations Manager

Robert A. Wall
Finance Manager

Michael J. Duckett
Chief Geologist

Mary C. Blue
Landman

**Coal Corporation of
America**
Derek Bullock
President

Ernest Collins Jr.
Vice-President

